

**Before The
Federal Communications Commission
Washington, D.C.**

In the Matter of)	
)	
Request for Review by)	CC Docket No. 02-6
)	
Net56, Inc. of the Administrator’s Decision)	
On Appeal – Funding Year 2008)	CC Docket No. 96-45
)	
Schools and Libraries Universal Service)	Round Lake Area School District 116
Support Mechanism)	FRNs 1756397, 1756439, 1756486,
)	and 1756526

**REQUEST FOR REVIEW BY NET56, INC. OF THE DECISION OF THE UNIVERSAL
SERVICE ADMINISTRATOR**

Net56, Inc. (“Net56”) respectfully requests, pursuant to Sections 54.719 through 54.7123 of the Commission’s rules,¹ that the Commission review the Universal Service Administrative Company (“USAC”) Decision on Appeal for Funding Year 2008 with respect to the above-referenced FRNs (“Administrator’s Decision”). The Administrator’s Decision was issued on November 25, 2015 in response to a Letter of Appeal filed by Net56 on July 29, 2015.² For the reasons set forth herein, the Commission should grant Net56’s appeal of the Administrator’s Decision and remand the underlying applications to USAC for full funding.³

¹ 47 C.F.R. §§ 54.719-54.723.

² See Administrator’s Decision on Appeal for Funding Year 2008, dated November 25, 2015, attached hereto as Exhibit A (“Administrator’s Decision”). See Letter of Appeal, dated July 29, 2015, attached hereto as Exhibit B (“Letter of Appeal to USAC”).

³ The FCC Form 471 Application Number on which the above-referenced FRNs were submitted to USAC was 635038. Round Lake Area School District 116 the Billed Entity for the application, and its Billed Entity Number (“BEN”) is 135319.

I. The Merits of Net56's Appeal

Net56 appeals the following funding reductions set forth in the June 3, 2015 and June 9, 2015 USAC Revised Funding Commitment Decision Letters for the above-referenced FRNs⁴:

- \$2460/month from the WAN Internet Access service, a reduction of \$205/month for each IBM the 12 servers used to provide DNS and DHCP functionality for Net56's Internet Access service, apparently on the grounds that these servers should have been classified as providing internal connections instead of Internet access;
- \$1350/month from the Firewall service for the firewall equipment at the Net56 data center;
- \$1000/month from the Email services for retention and journaling, which USAC found to be ineligible services; and
- \$1000/month from the Web Hosting services for retention and journaling, which USAC found to be ineligible services.

The only basis ever offered by USAC in support of the above funding reductions is a statement of a Net56 employee made casually in the context of a *different school district* for a *different funding year*. While it is fair for USAC to demand that Net56 and the applicant justify the requested funding in light of the past statement, it is unfair for USAC to summarily deem its determination of reduced funding to be irrefutably proven by such statement, without any opportunity to prove otherwise. Net56 believes it should have the opportunity to have its case

⁴ See Revised Funding Commitment Decision Letters for Funding Year 2008, dated June 3, 2015 and June 9, 2015, attached hereto as Exhibit C ("Revised Funding Letters").

heard on its merits, but when Net56 presented such information to USAC in its appeal, USAC denied the appeal without any explanation. Net56 accordingly in this appeal provides to the Commission that same detailed cost information and documentation to refute the premise of the partial denial of funding. As set forth below, the vast majority of the denied funding was in fact requested for eligible, cost-effective services.

A. The DNS/DHCP Server Was an Integral Part of Internet Access Service, Not an Internal Connection

USAC reduced FRN 1756397 by \$205/month from the WAN Internet Access service for each of the 12 IBM servers (used to provide DNS and DHCP functionality for Net56's Internet Access service) on the grounds that these servers should have been classified as providing an internal connection instead of Internet access.

The 2008 Eligible Service List (ESL) expressly provides that Priority 1 Internet Access service can include Domain Name Service to translate the alphabetical names input by users into the IP addresses used by Internet devices and Dynamic Host Configuration Protocol to assist with providing devices with a unique address.⁵ The ESL also provides eligibility for funding as a part of Internet Access for a "Wide Area Network" (WAN) that provides connections from within an eligible school location to other locations "if the service is limited to basic conduit access to the Internet and the offering is the most cost-effective means of accessing the Internet."⁶ Net56 deployed IBM servers at each premises to provide DNS and DHCP functionality for its Internet Access service, which was delivered via a WAN.

⁵ See, e.g., Schools and Libraries' Eligible Services List for Funding Year 2008, pp. 7 and 33.

⁶ *Id.* at p. 7.

DNS is essential to Internet Access, as it maps domain names to IP addresses so that users can access third party websites. DHCP is used to provide dynamic IP addresses to devices so that they may interact with the Internet. Net56's Internet Access service could not have performed properly without these functions, and the use of the Internet Access service was the purpose for which this server was deployed. This is why these functions were included in the ESL, and it should be clear that Net56 is permitted to incorporate the cost of DNS and DHCP into its integrated Internet Access service.

Although USAC did not explain the basis of its decision Net56 assumes that USAC re-applied the basis of a decision with respect to Net56's provision of services to the Country Club Hills school district, which is under appeal with the FCC.⁷ In that case, USAC decided that the servers were internal connections under the standards of the FCC's *Tennessee Order*.⁸ USAC claimed that the servers "failed" the guidelines for rebutting an internal connection classification for two reasons. First, in the *Tennessee* case, the FCC found that the on-premises equipment should be included in Priority 1 funding because "the schools' internal networks would continue to function without connection to the equipment."⁹ For Net56's typical service configuration in 2009, USAC found that Net56 "failed" to meet this criterion "because the DHCP/DNS service would not be able to function if the servers were removed." But that is not the question. Of course DNS and DHCP would have been affected by removal of the equipment that was performing those Internet Access functions. The question is whether the District's internal networks would have continued to function in 2008 without Net56's DNS/DHCP service, and

⁷ See Request for Review by Net56, Inc. of the Decisions of the Universal Service Administrator, Country Club Hills School District, 2006-2008 Funding Years (filed July 11, 2013).

⁸ *In Re Request for Review by the Department of Education of the State of Tennessee of the Decision of the Universal Service Administrator*, Order, 14 FCC Rcd 13734 (FCC rel. Aug. 11, 1999) (hereinafter "*Tennessee Order*").

⁹ *Tennessee Order*, ¶ 38.

the answer is yes, because the DNS/DHCP functions were part of the Internet Access service. This indicates that the server was *not* actually part of the District's internal connections.

Second, USAC pointed to the *Tennessee* test factor that on-premises equipment would appear to warrant Priority 1 classification where "There is no contractual, technical, or other limitation that would prevent the service provider from using its network equipment, in part, for other customers." USAC found that the servers "failed" this part of the test "because the servers are located at an applicant site; as such, it would not be possible for the vendor to utilize the same servers to provide DNS/DHCP service to another customer." This is not a correct application of the Commission's test. By definition, the *Tennessee* test is applied to equipment on the premises of the school, so it cannot be the case that equipment would fail it if located on school premises. USAC's circular reasoning would obliterate the meaning of the *Tennessee Order*, which in fact did hold that certain on-premises equipment should have been classified as Priority 1. While of course the location of the equipment at the time made it less likely that it would be used for other customers, Net56 could re-locate the equipment because it retained ownership. The relevant test is only that "There is no contractual, technical, or other limitation that would prevent the service provider from using its network equipment, in part, for other customers." There was no such limitation.

The reality is that the servers were an integrated part of Net56's basic Internet access service. The server was the beginning and end point of the Internet Access service so that devices at the schools could utilize the service. By contrast, Internal Connections are "components located at the applicant site that are necessary to transport information to classrooms, publicly accessible rooms of a library, and to eligible administrative areas or buildings. Internal Connections include connections within, between or among instructional

buildings that comprise a school campus or library branch, but do **not** include services that **extend beyond** the school campus or library branch.”¹⁰ Net56’s Internet Access service, including its DNS and DHCP functions, of course did “extend beyond” the District’s premises.

In this case, the servers were provided by Net56, the same service provider that provides the eligible Internet access service. Net56 had responsibility for maintaining the equipment, not the District. Net56 retained ownership of the equipment, and reclaimed it when services concluded. The agreements between the parties do not contain any option for the District to purchase the equipment. Net56 did not charge any upfront, capital charges for the equipment, but instead bore such costs itself to be defrayed through the price of the services. All of these are factors that USAC has considered to weigh in favor of a Priority 1 classification.

For all of these reasons, the servers were an integral part of the basic Internet Access service and not internal connections. Therefore, USAC erred in reducing funding for the portion of the Internet Access WAN allocated to the DNS/DHCP servers.

B. The Firewall Service Should Not be Partially Defunded for Locating Equipment in the Net56 Data Center

USAC reduced funding by \$1350/month for the firewall service, presumably upon the same grounds that USAC denied funding in the Country Club Hills case: that (1) the “Net56 data center is an ineligible location” and (2) “since the funding request includes the firewall capability of the software running on the switch, which is located at the point of entry of each building, it has been determined that the equipment located at the Net56 data center is redundant and therefore ineligible for that reason as well.”¹¹

¹⁰ Schools and Libraries’ Eligible Services List for Funding Year 2008, p.10 (emphasis added).

¹¹ See Further Explanation of Administrator’s Funding Decision Letter to Country Club Hills School District for Funding Year 2009 (March 26, 2010), attached hereto as Exhibit D.

It is puzzling that USAC would argue that funding would not be appropriate for services powered in any part by equipment located in the service provider's data center. Such a rule would render ineligible every Internet Access service, and it is particularly strange when USAC has at the same time faulted Net56 for locating its DNS/DHCP servers on school premises rather than in its data center. The presence of some firewall functionality at more than one location is not "redundant." Net56's best-practice standard firewall service, which it provides to its commercial customers as well, permits customers to tailor its firewall needs for each location, rather than requiring all customers to have the same service, and this required the presence of firewall functionality at the premises and the data center. In addition, the service could not be as robust if all firewall functions were only in one location. It is true of many services that portions of functionalities are performed by multiple pieces of equipment that may be at multiple locations, just as Internet Access service may be powered by a modem and router at the customer premises and by network equipment at the provider's data center. Therefore, USAC has not identified any valid reason why funding for the firewall service should be partially denied. Finally, it would be particularly unjust to deny funding based upon an unclear basis when the Commission acknowledged at the relevant time period for this appeal that the "eligibility of firewall service is [] ambiguous and confusing."¹²

C. The Recovery Amount Requested for Archiving and Journaling is Excessive

Net56 acknowledges that it provided retention (archiving) and journaling functionality in connection with its Web Hosting and Email Services, and that has since recognized that these functions are ineligible for e-rate support. However, the incremental cost to Net56 for these functions was much, much less than the \$1,000 per month per service reduction set forth in the

¹² See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Notice of Proposed Rulemaking, 23 FCC Rcd 11703, ¶ 20 (2008).

Revised Funding Commitment Letters. A Net56 representative casually provided the \$1000 figure to USAC with respect to a different district when asked about these services. That person is no longer with the company, and we have been unable to determine the source of his information. It may be that he estimated the cost of purchasing these services *separately* using different, stand-alone equipment. If so, that is not a reasonable method for determining the portion of the funding request to allocate to the ineligible function in this case, because a stand-alone solution would be much more expensive. The equipment that Net56 needed and used in any case to deliver the *eligible* services was able to perform the retention and journaling functions with only one additional incremental cost for storage. Net56 purchased two 500 GB IBM-39M4554 hard drives for the District to provide storage for both of these two services, combined. Such hard drives are very inexpensive today, but in 2006 cost Net56 \$526 each¹³ - far less than the \$24,000 per year reduction.

In the attached Exhibit F, Net56 has used the same formula employed in its other successful appeals to USAC to generate a monthly service price allocable to these hard drives. This formula adds 50% for installation cost and 50% annually for maintenance, and 11.25% for Net56's overhead, spread over 36 months.¹⁴ Using this formula, the hard drives represent \$60.30 per month per service. USAC should limit any funding reduction in this case to this amount per month, for a total reduction of \$723.60 (\$60.30 * 12 months) for each of the services.

III. CONCLUSION

For the foregoing reasons, USAC should grant Net56's appeal and restore funding for each FRN in the amounts requested.

¹³ The invoice attached hereto as Exhibit E shows Net56's purchase price in 2006. Net56 has so far not been able to locate the invoice for the same equipment ordered slightly earlier for use in the District, but this contemporaneous invoice provides a reasonably reliable estimate of the cost.

¹⁴See Harrison School District 36 (BEN 135349) and Northern Suburban Special Ed District (BEN 135257), Funding Year 2010.

Respectfully submitted,



Paul B. Hudson
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*Attorney for **Net56, Inc.***

Dated: January 21, 2016

CERTIFICATE OF SERVICE

I, Chelsey Bethencourt, hereby certify that a true and correct copy of the foregoing *Request for Review by Net56, Inc. of the Decision of The Universal Service Administrator* was mailed postage prepaid this 21st day of January, 2016 to the following:

Universal Service Administrative Company
Schools and Libraries Division
100 South Jefferson Road
P.O. Box 902
Whippany, New Jersey 07981

/s/

Chelsey Bethencourt
Legal Secretary, Davis Wright Tremaine LLP

Exhibit A



Universal Service Administrative Company
Schools & Libraries Division

Administrator's Decision on Appeal – Funding Year 2008-2009

November 25, 2015

Paul B. Hudson
Davis Wright Termaine LLP
1919 Pennsylvania Ave. NW
Suite 800
Washington, DC 20006

Re: Applicant Name: ROUND LAKE AREA SCH DIST 116
Billed Entity Number: 135319
Form 471 Application Number: 635038
Funding Request Number(s): 1756397, 1756439, 1756486, 1756526
Your Correspondence Dated: July 29, 2015

After thorough review and investigation of all relevant facts, the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC) has made its decision in regard to your appeal of USAC's Funding Year 2008 Revised Funding Commitment Decision Letter for the Application Number indicated above. This letter explains the basis of USAC's decision. The date of this letter begins the 60 day time period for appealing this decision. If your Letter of Appeal included more than one Application Number, please note that you will receive a separate letter for each application.

Funding Request Number(s): 1756397, 1756439, 1756486, 1756526
Decision on Appeal: **Denied**
Explanation:

- USAC revised your requests as per the cost allocations provided for the following ineligible product and/or services:

The FRN 1756397 was modified from \$11,540.00/m to \$9,080.00/m to agree with the applicant documentation to remove \$2,460.00 associated with Internal Connections services for the DNS/DHCP portion that was not posted on the FCC Form 470.

The FRN 1756439 was modified from \$7,940.00/m to \$6,590.00/m to agree with the applicant documentation to remove cost for \$1,350.00/m associated with the Data Center.

The FRN 1756486 was modified from \$5,000.00/m to \$4,000.00/m to agree with the applicant documentation to remove email component of Net56 Solution for \$1,000.00 per month that included Email Retention \$500.00 per month and Email Journaling \$500.00 per month.

The FRN 1756526 was modified from \$5,000.00/m to \$4,000.00/m to agree with the applicant documentation to remove Webhosting component of Net56 Solution for \$1,000.00 per month that included Web Retention \$500.00 per month and Web Journaling \$500.00 per month.

In your appeal, you did not show that USAC's determination was incorrect. Consequently, your appeal is denied.

- FCC rules provide that funding may be approved only for eligible products and services. *See* 47 C.F.R. secs. 54.502, 54.503. The USAC website contains a list of eligible products and services. See the website, www.usac.org/sl, Eligible Services List. FCC rules further require that if 30% or more of the applicant's funding request includes ineligible products and/or services, then the funding request must be denied, otherwise the funding request will be reduced accordingly. *See* 47 C.F.R. sec. 54.504(d). The FCC's Aiken County Public Schools Order directed USAC to permit the applicant 15 calendar days from the date of receipt of notice in writing by USAC to revise its funding request to remove the ineligible services or allow the applicant to provide additional documentation to show why the services are eligible. *See* Requests for Review of the Decisions of the Universal Service Administrator by Aiken County Public Schools Aiken, SC, et al., Schools and Libraries Universal Service Support Mechanism, File No. SLD-397612, et al., CC Docket No. 02-6, Order, 22 FCC Rcd 8735, FCC 07-61 para. 11 (May 8, 2007).

Since your appeal was denied in full, dismissed or cancelled, you may file an appeal with the FCC. Your appeal must be postmarked within 60 days of the date on this letter. Failure to meet this requirement will result in automatic dismissal of your appeal. You should refer to CC Docket No. 02-6 on the first page of your appeal to the FCC. If you are submitting your appeal via United States Postal Service, send to: FCC, Office of the Secretary, 445 12th Street SW, Washington, DC 20554. Further information and options for filing an appeal directly with the FCC can be found under the Reference Area/"Appeals" of the SLD section of the USAC website or by contacting the Client Service Bureau. We strongly recommend that you use the electronic filing options.

We thank you for your continued support, patience and cooperation during the appeal process.

Schools and Libraries Division
Universal Service Administrative Company

cc: Lana Soldat

Paul B. Hudson
Davis Wright Termaine LLP
1919 Pennsylvania Ave. NW
Suite 800
Washington, DC 20006

Billed Entity Number: 135319
Form 471 Application Number: 635038
Form 486 Application Number:

Exhibit B

July 29, 2015

Letter of Appeal
Schools and Libraries Division – Correspondence Unit
30 Lanidex Plaza West
PO Box 685
Parsippany, NJ 07054-0685

VIA EMAIL: appeals@sl.universalservice.org

To Whom It May Concern:

The purpose of this letter is to appeal the decisions set forth in the Revised Funding Commitment Decisions Letters, dated June 3, 2015 and June 9, 2015 regarding Funding Year 2008 and Round Lake Area School District 116 (“the District”).

Identifying Information:

Appellant Name:	Net56, Inc.
Applicant Name:	Round Lake Area School District 116
Applicant BEN:	135319
Service Provider SPIN:	143025679
Funding Year:	2008
Form 471 No.:	635038
FRNs:	1756397, 1756439, 1756486, and 1756526
USAC Action:	Funding Year 2008 Revised FCDLs, dated June 3, 2015 and June 9, 2015

Appeal Contact:

Paul B. Hudson
Davis Wright Tremain LLP
1919 Pennsylvania Ave. NW, Suite 800
Washington, DC 20006
202-973-4275
paulhudson@dwt.com

Appeal

Net56 appeals the following funding reductions set forth in the June 3, 2015 and June 9, 2015 Revised Funding Commitment Decision Letters for the above-referenced FRNs.

- \$2460/month from the WAN Internet Access service, a reduction of \$205/month for each IBM the 12 servers used to provide DNS and DHCP functionality for Net56's Internet Access service on the grounds that these servers should have been classified as providing internal connections instead of Internet access;
- \$1350/month from the Firewall service for the firewall equipment at the Net56 data center;
- \$1000/month from the Email services for retention and journaling, which USAC found to be ineligible services; and
- \$1000/month from the Web Hosting services for retention and journaling, which USAC found to be ineligible services.

I. The DNS/DHCP Server Was an Integral Part of Internet Access Service, Not an Internal Connection

USAC reduces FRN 1756397 by \$205/month from the WAN Internet Access service for each of the 12 IBM servers (used to provide DNS and DHCP functionality for Net56's Internet Access service) on the grounds that these servers should have been classified as providing an internal connection instead of Internet access.

The 2008 Eligible Service List (ESL) expressly provides that Priority 1 Internet Access service can include Domain Name Service to translate the alphabetical names input by users into the IP addresses used by Internet devices and Dynamic Host Configuration Protocol to assist with providing devices with a unique address.¹ The ESL also provides eligibility for funding as a part of Internet Access for a "Wide Area Network" (WAN) that provides connections from within an eligible school location to other locations "if the service is limited to basic conduit access to the Internet and the offering is the most cost-effective means of accessing the Internet."² Net56 deployed IBM servers at each premises to provide DNS and DHCP functionality for its Internet Access service, which was delivered via a WAN.

DNS is essential to Internet Access, as maps domain names to IP addresses so that users can access third party websites. DHCP is used to provide dynamic IP addresses to devices so that they may interact with the Internet. Net56's Internet Access service could not have performed properly without these functions, and the use of the Internet Access service was the purpose for which this server was deployed. This is why these functions were included in the

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² *Id.* at p. 7.

ESL, and it should be clear that Net56 is permitted to incorporate the cost of DNS and DHCP into its integrated Internet Access service.

Although USAC did not explain the basis of its decision Net56 assumes that USAC re-applied the basis of a similar decision with respect to Net56's provision of similar services to the Country Club Hills school district, which is under appeal with the FCC.³ In that case, USAC decided that the servers were internal connections under the standards of the FCC's *Tennessee Order*.⁴ USAC claimed that the servers "failed" the guidelines for rebutting an internal connection classification for two reasons. First, in the *Tennessee* case, the FCC found that the on-premises equipment should be included in Priority 1 funding because "the schools' internal networks would continue to function without connection to the equipment."⁵ For Net56's typical service configuration in 2009, USAC found that Net56 "failed" to meet this criterion "because the DHCP/DNS service would not be able to function if the servers were removed." But that is not the question. Of course DNS and DHCP would have been affected by removal of the equipment that was performing those Internet Access functions. The question is whether the District's internal networks would have continued to function in 2008 without Net56's DNS/DHCP service, and the answer is yes, because the DNS/DHCP functions were part of the Internet Access service. This indicates that the server was *not* actually part of the District's internal connections.

Second, USAC pointed to the *Tennessee* test factor that on-premises equipment would appear to warrant Priority 1 classification where "There is no contractual, technical, or other limitation that would prevent the service provider from using its network equipment, in part, for other customers." USAC found that the servers "failed" this part of the test "because the servers are located at an applicant site; as such, it would not be possible for the vendor to utilize the same servers to provide DNS/DHCP service to another customer." This is not the FCC's test. By definition, the *Tennessee* test is applied to equipment on the premises of the school, so it cannot be that equipment would fail it if located on school premises. USAC's circular reasoning would obliterate the meaning of the FCC's *Tennessee Order*, which in fact did that certain on-premises equipment should have been classified as Priority 1. While of course the location of the equipment at the time made it less likely that it would be used for other customers, Net56 could re-locate the equipment because it retained ownership. The relevant test is only that "There is no contractual, technical, or other limitation that would prevent the service provider from using its network equipment, in part, for other customers." There was no such limitation.

³ See Request for Review by Net56, Inc. of the Decisions of the Universal Service Administrator, Country Club Hills School District, 2006-2008 Funding Years (filed July 11, 2013).

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The reality is that the servers were an integrated part of Net56's basic Internet access service. The server was the beginning and end point of the Internet Access service so that devices at the schools could utilize the service. By contrast, Internal Connections are "components located at the applicant site that are necessary to transport information to classrooms, publicly accessible rooms of a library, and to eligible administrative areas or buildings. Internal Connections include connections within, between or among instructional buildings that comprise a school campus or library branch, but do **not** include services that **extend beyond** the school campus or library branch."⁶ Net56's Internet Access service, including its DNS and DHCP functions, of course did "extend beyond" the District's premises.

In this case, the servers were provided by Net56, the same service provider that provides the eligible Internet access service. Net56 had responsibility for maintaining the equipment, not the District. Net56 retained ownership of the equipment, and reclaimed it when services concluded. The agreements between the parties do not contain any option for the District to purchase the equipment. Net56 did not charge any upfront, capital charges for the equipment, but instead bore such costs itself to be defrayed through the price of the services. All of these are factors that USAC has considered to weigh in favor of a Priority 1 classification.

For all of these reasons, the servers were an integral part of the basic Internet Access service and not internal connections. Therefore, USAC should not reduce funding for the portion of the Internet Access WAN allocated to the DNS/DHCP servers.

II. The Firewall Service Should Not be Partially Defunded for Locating Equipment in the Net56 Data Center

USAC reduced funding by \$1350/month for the firewall service, presumably upon the same grounds as USAC denied funding in the Country Club Hills case: that (1) the "Net56 data center is an ineligible location" and (2) "since the funding request includes the firewall capability of the software running on the switch, which is located at the point of entry of each building, it has been determined that the equipment located at the Net56 data center is redundant and therefore ineligible for that reason as well."

It is puzzling that USAC would argue that funding would not be appropriate for services powered in any part by equipment located in the service provider's data center. Such a rule would render ineligible every Internet Access service, and it is particularly strange when USAC has at the same time faulted Net56 for locating its DNS/DHCP servers on school premises rather than in its data center. The presence of some firewall functionality at more than one location is not "redundant." Net56's best-practice standard firewall service, which it provides to its commercial customers as well, permits customers to tailor its firewall needs for each location, rather than requiring all customers to have the same service, and this required the presence of

⁶ Schools and Libraries' Eligible Services List for Funding Year 2008, p.10 (emphasis added).

firewall functionality at the premises and the data center. In addition, the service could not be as robust if all firewall functions were only in one location. It is true of many services that portions of functionalities are performed by multiple pieces of equipment that may be at multiple locations: just as Internet Access service may be powered by a modem and router at the customer premises and by network equipment at the provider's data center. Therefore, USAC has not identified any valid reason why funding for the firewall service should be partially denied. Finally, it would be particularly unjust to deny funding based upon an unclear basis when the FCC acknowledged at the time that the "eligibility of firewall service is now ambiguous and confusing."⁷

III. The Funding Reduction for Archiving and Journaling is Excessive

Net56 acknowledges that it provided retention (archiving) and journaling functionality in connection with its Web Hosting and Email Services, and that these functions are ineligible for e-rate support. However, the incremental cost to Net56 for these functions was much, much smaller than the \$1,000 per month per service reduction set forth in the Revised Funding Commitment Letters. A Net56 representative provided that figure to USAC with respect to a different district when asked about these services. That person is no longer with the company, and we have been unable to determine the source of his information. It may be that he estimated the cost of purchasing these services separately using different, stand-alone equipment. If so, that is not a reasonable method for determining the portion of the funding request to allocate to the ineligible function in this case, because a stand-alone solution would be much more expensive. The equipment that Net56 needed and used in any case to deliver the *eligible* services was able to perform the retention and journaling functions with only one additional incremental cost for storage. Net56 purchased two 500 GB IBM-39M4554 hard drives for the District to provide storage for both of these two services, combined. Such hard drives are very inexpensive today, but in 2006 cost Net56 \$526 each⁸ – far less than the \$24,000 per year reduction.

In the attached Exhibit, Net56 has used the same formula employed in its other successful appeals to USAC to generate a monthly service price allocable to these hard drives. This formula adds 50% for installation cost and 50% annually for maintenance, and 11.25% for Net56's overhead, spread over 36 months.⁹ Using this formula, the hard drives represent \$60.30 per month per service. USAC should limit any funding reduction in this case to this amount per month, for a total reduction of \$723.60 (\$60.30 * 12 months) for each of the services.

⁷ See *Schools and Libraries Universal Service Support Mechanism*, CC Docket No. 02-6, Notice of Proposed Rulemaking, 23 FCC Rcd 11703, ¶ 20 (2008).

⁸ The attached invoice shows Net56's purchase price in 2006. Net56 has so far not been able to locate the invoice for the same equipment ordered slightly earlier for use in the District, but this contemporaneous invoice provides a reasonably reliable estimate of the cost.

⁹ See Harrison School District 36 (BEN 135349) and Northern Suburban Special Ed District (BEN 135257), Funding Year 2010.

Letter of Appeal
Schools and Libraries Division – Correspondence Unit
July 29, 2015
Page 6

Conclusion

For the foregoing reasons, USAC should grant Net56's appeal and restore funding for each FRN in the amounts requested.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "P. Hudson", is written over a light gray rectangular background.

Paul B. Hudson
Counsel for Net56, Inc.

cc: Round Lake Area School District 116



This invoice was created for your records only,
please do not remit payment to SYNNEX

PURCHASE ORDER 6524765MP-1	CUSTOMER # 332439	SHIPPED VIA Local Delivery	Invoice# 19221961	DATE 11/30/06
TERMS: WT WIRE TRANSFER	Ship Date 11/30/06	F.O.B SYNNEX -GLENDALE CM6	Invoice Total \$43,854.00	Due Date 12/05/06
Approval #	Taxable N	Source Sales Order	Contact Phone # (864) 349-4713	PAGE 1 / 2

Bill To:
Net56, Inc
1266 West Northwest Hwy
Suite 740
Palatine IL 60067
US

Ship To:
Bruce Koch
NET56, INC
1266 WEST NORTHWEST HWY,
SUITE 740
PALATINE IL 60067
US

Sold To:
Net56, Inc
1266 West Northwest Hwy
Suite 740
Palatine IL 60067
US

QTY	PART NUMBER/DESCRIPTION	SKU #	VENDOR PART #/UPC CODE	UNIT PRICE	EXT NET PRICE
2	IBM-32R1812 Brocade 20-port 4Gb SAN Switch SN: 1S32R181223A5756	1083541 SN: 1S32R181223A5828	32R1812 000435819130	\$5,637.00	\$11,274.00
4	IBM-39M4675 BladeCenter 2000W Power Supply Modules SN: 1S39M4675KQVW544 SN: 1S39M4675KQXL603	1108324 SN: 1S39M4675KQVW549	39M4675 000435820785 SN: 1S39M4675KQXL602	\$474.00	\$1,896.00
9	IBM-39M4594 2GbPS FC, 300.0 GB, 10K E- DDM SN: 0631254785 SN: 0639031323 SN: 0639031670	1096663 SN: 0632326587 SN: 0639031337 SN: 0639031743	39M4594 000435882189 SN: 0639031312 SN: 0639031660 SN: 0639031751	\$545.00	\$4,905.00
1	IBM-181281H IBM DS4000 EXP810 Expansion Unit SN: 1S181281H130362D	1096656	181281H 000435882974	\$3,773.00	\$3,773.00
1	IBM-41Y5222 DS4700 Mod 70 EXPs Att 1-3	1134142	41Y5222 000435913470	\$3,590.00	\$3,590.00
32	IBM-39M4554 500GB 7200 RPM SATA E-DDM SN: 0639029032 SN: 0639029047 SN: 0639029052	1171577 SN: 0639029036 SN: 0639029050 SN: 0639029056	39M4554 000435929860 SN: 0639029046 SN: 0639029051 SN: 0639029059	\$526.00	\$16,832.00

1) Claim for any discrepancy or defective material must be made within 1 week from the date of shipment from SYNNEX. No return will be accepted without prior authorization.

2) Statements or description of products, if any, by SYNNEX or agents of SYNNEX are informational only, and not made or given as a warranty of any kind. SYNNEX SELLS THE PRODUCTS WITHOUT ANY EXPRESS OR IMPLIED WARRANTIES OF ANY TYPE AND PARTICULARLY WITHOUT ANY IMPLIED WARRANTY OF MERCHANTABILITY OR NON-INFRINGEMENT. In the event of any product defect or nonconformity, purchaser's sole remedy shall be the repair or replacement of nonconforming goods or, at SYNNEX's option, a refund of the purchase price and purchaser shall not be entitled to any incidental, consequential, or special damages of any kind.

3) Customer also agrees to pay such attorney's fees and costs as are actually incurred for the collection of this amount whether or not suit is instituted.

A service charge of 1 1/2% per month, 18% per annum will be assessed on past due amounts

Exhibit C

JUN 05 2015

Schools and Libraries Division



REVISED FUNDING COMMITMENT DECISION LETTER
Funding Year 2008: (07/01/2008 - 06/30/2009)

June 3, 2015

Mary Piazza
Net56, Inc
21805 W. Field Parkway Suite 125
Deer Park, IL 60010-3267

SPIN: 143025679

This letter is your notification that the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC) has completed its review of requests regarding application funding requests that listed your company's Service Provider Identification Number (SPIN). A decision in this Revised Funding Commitment Decision letter (RFCDL) supersedes a decision in the FCDL you may have received for the Funding Request Number(s) (FRN) in the Funding Commitment Report (Report) that follows this letter.

The Report that follows this RFCDL provides you with the dollar value and other details of the funding commitments made for the FCC Form 471, Services Ordered and Certification Form identified in the attached Report. This Report may have been updated to reflect the new total amount of discount for an FRN. If FCC Form 486, Receipt of Service Confirmation Form, has not already been submitted, your customer(s) should use this updated information when completing the Form 486. An explanation of the items in the Report is in the "Guide to USAC Letter Reports" posted in the Reference Area of our website.

This same information is being sent to your customer(s).

NEXT STEPS

- File Form 498, Service Provider Identification Number and Contact Information Form, if appropriate
- File Form 473, Service Provider Annual Certification Form (SPAC), for the above Funding Year
- Work with your customer(s) to provide appropriate invoicing to USAC - Service Provider Invoice (Form 474) or Billed Entity Applicant Reimbursement (Form 472)

IMPLEMENTATION TIMEFRAME

Remember the deadlines for delivery and installation of non-recurring service. Non-recurring service for which funds are committed in this letter may be delivered and installed on or before September 30, 2016. Support for recurring services, however, is available only for services provided during the period July 01, 2008 through June 30, 2009.

Review any Contract Expiration Dates in the attached Report. Program rules allow contracts for non-recurring services to be extended in certain circumstances. If your contract will expire before non-recurring products/services are delivered or installed, your customer must extend the contract and report the new contract expiration date using an FCC Form 500, Adjustment to Funding Commitment and Modification of Receipt of Service Confirmation Form, before invoicing USAC.

Keep the Form 486 deadline in mind. If some funding was approved on an FRN in an original FCDL, your customer(s) should use the date of the original FCDL to determine the Form 486 deadline. If a new FRN was created for this Report or no

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30 Lanidex Plaza West, PO Box 685, Parsippany, NJ 07054-0685
Visit us online at: www.usac.org/sl

funding was approved on an FRN in an original FCDL but funding has been approved in this letter, your customer(s) should use the date in this RFCDL to determine the Form 486 deadline. Form 486 must be received or postmarked no later than 120 days after the Service Start Date reported in the Form 486, or 120 days after the date of the FCDL that approves funding, whichever is later, for your customer(s) to receive discounts retroactively to the Service Start Date.

TO APPEAL THIS DECISION:

If you wish to appeal a decision in this letter to USAC, your appeal must be received by USAC or postmarked within 60 days of the date of this letter. Failure to meet this requirement will result in automatic dismissal of your appeal. In your letter of appeal:

1. Include the name, address, telephone number, fax number, and (if available) email address for the person who can most readily discuss this appeal with us.
2. State outright that your letter is an appeal. Include the following to identify the decision letter and the decision you are appealing:
 - appellant name
 - applicant and service provider names, if different than appellant
 - applicant BEN and Service Provider Identification Number (SPIN)
 - Form 471 Application Number as assigned by USAC
 - Funding Request Number(s) (FRNs) you are appealing if provided in the letter
 - Funding Year 2008 Revised FCDL AND
 - the exact text or the decision that you are appealing.
3. Please keep your letter to the point, and provide documentation to support your appeal. Be sure to keep a copy of your entire appeal, including any correspondence and documentation.
4. If you are an applicant, please provide a copy of your appeal to the service provider(s) affected by USAC's decision. If you are a service provider, please provide a copy of your appeal to the applicant(s) affected by USAC's decision.
5. Provide an authorized signature on your letter of appeal.

To submit your appeal to USAC by email, email your appeal to appeals@sl.universalservice.org. USAC will automatically reply to incoming emails to confirm receipt.

To submit your appeal to us by fax, fax your appeal to (973) 599-6542.

To submit your appeal to us on paper, send your appeal to:

Letter of Appeal
Schools and Libraries Division - Correspondence Unit
30 Lanidex Plaza West
PO Box 685
Parsippany, NJ 07054-0685

OBLIGATION TO PAY NON-DISCOUNT PORTION

Applicants are required to pay the non-discount portion of the cost of the products and/or services to their service provider(s). Service providers are required to bill applicants for the non-discount portion. The FCC stated that requiring

applicants to pay their share ensures efficiency and accountability in the program. If USAC is being billed via the FCC Form 474, the service provider must bill the applicant at the same time it bills USAC. If USAC is being billed via the FCC Form 472, the applicant pays the service provider in full (the non-discount plus discount portion) and then seeks reimbursement from USAC. If you are using a trade-in as part of your non-discount portion, please refer to our website for more information.



NOTICE ON RULES AND FUNDS AVAILABILITY

Applicants' receipt of funding commitments is contingent on their compliance with all statutory, regulatory, and procedural requirements of the Schools and Libraries Universal Service Support Mechanism. Applicants who have received funding commitments continue to be subject to audits and other reviews that USAC and/or the FCC may undertake periodically to assure that funds that have been committed are being used in accordance with all such requirements. USAC may be required to reduce or cancel funding commitments that were not issued in accordance with such requirements, whether due to action or inaction, including but not limited to that by USAC, the applicant, or the service provider. USAC, and other appropriate authorities (including but not limited to the FCC), may pursue enforcement actions and other means of recourse to collect erroneously disbursed funds. The timing of payment of invoices may also be affected by the availability of funds based on the amount of funds collected from contributing telecommunications companies.

Schools and Libraries Division
Universal Service Administrative Company

FUNDING COMMITMENT REPORT
Service Provider Name: Net56, Inc
SPIN: 143025679
Funding Year: 2008

Name of Billed Entity: ROUND LAKE AREA SCH DIST 116
Billed Entity Address: 316 S ROSEDALE CT
Billed Entity City: ROUND LAKE
Billed Entity State: IL
Billed Entity Zip: 60073-2944
Billed Entity Number: 135319
Name of Contact Person: Lana Soldat
Preferred Mode of Contact: EMAIL
Contact Information: lsoldat@rlas-116.org
Form 471 Application Number: 635038
Funding Request Number: 1756358
Funding Status: Funded
Category Of Service: INTERNET ACCESS
Form 470 Application Number: 769500000660110
Contract Number: N/A
Billing Account Number: N/A
Service Start Date: 07/01/2008
Contract Expiration Date: 06/30/2012
Number of Months Recurring Service Provided in Funding Year: 12
Annual Pre-Discount Amount for Eligible Recurring Charges: \$359,400.00
Annual Pre-Discount Amount for Eligible Non-Recurring Charges: \$.00
Pre-Discount Amount: \$359,400.00
Applicant's Discount Percentage Approved by SLD: 82%
Funding Commitment Decision: \$294,708.00 - FRN approved as submitted

Applicant Revised FCDL Letter Date: 06/03/2015
Appeal Wave Number: A58
Last Allowable Date for Delivery and Installation for Non-Recurring Services: 09/30/2016

Consultant Name:
Consultant Number (CRN):
Consultant Employer:

FUNDING COMMITMENT REPORT
Service Provider Name: Net56, Inc
SPIN: 143025679
Funding Year: 2008



Name of Billed Entity: ROUND LAKE AREA SCH DIST 116
Billed Entity Address: 316 S ROSEDALE CT
Billed Entity City: ROUND LAKE
Billed Entity State: IL
Billed Entity Zip: 60073-2944
Billed Entity Number: 135319
Name of Contact Person: Lana Soldat
Preferred Mode of Contact: EMAIL
Contact Information: lsoldat@rlas-116.org
Form 471 Application Number: 635038
Funding Request Number: 1756439
Funding Status: Funded
Category Of Service: INTERNET ACCESS
Form 470 Application Number: 769500000660110
Contract Number: N/A
Billing Account Number: N/A
Service Start Date: 07/01/2008
Contract Expiration Date: 06/30/2012
Number of Months Recurring Service Provided in Funding Year: 12
Annual Pre-Discount Amount for Eligible Recurring Charges: \$79,080.00
Annual Pre-Discount Amount for Eligible Non-Recurring Charges: \$.00
Pre-Discount Amount: \$79,080.00
Applicant's Discount Percentage Approved by SLD: 82%
Funding Commitment Decision: \$64,845.60 - Modified by SLD
Funding Commitment Decision Explanation: The FRN was modified from \$7,940.00/m to \$6,590.00/m to agree with the applicant documentation to remove cost for \$1,350.00/m associated with the Data Center.

Applicant Revised FCDL Letter Date: 06/03/2015
Appeal Wave Number: A58
Last Allowable Date for Delivery and Installation for Non-Recurring Services: 09/30/2016

Consultant Name:
Consultant Number (CRN):
Consultant Employer:

FUNDING COMMITMENT REPORT
Service Provider Name: Net56, Inc
SPIN: 143025679
Funding Year: 2008

Name of Billed Entity: ROUND LAKE AREA SCH DIST 116
Billed Entity Address: 316 S ROSEDALE CT
Billed Entity City: ROUND LAKE
Billed Entity State: IL
Billed Entity Zip: 60073-2944
Billed Entity Number: 135319
Name of Contact Person: Lana Soldat
Preferred Mode of Contact: EMAIL
Contact Information: lsoldat@rlas-116.org
Form 471 Application Number: 635038
Funding Request Number: 1756486
Funding Status: Funded
Category Of Service: INTERNET ACCESS
Form 470 Application Number: 769500000660110
Contract Number: N/A
Billing Account Number: N/A
Service Start Date: 07/01/2008
Contract Expiration Date: 06/30/2012
Number of Months Recurring Service Provided in Funding Year: 12
Annual Pre-Discount Amount for Eligible Recurring Charges: \$48,000.00
Annual Pre-Discount Amount for Eligible Non-Recurring Charges: \$.00
Pre-Discount Amount: \$48,000.00
Applicant's Discount Percentage Approved by SLD: 82%
Funding Commitment Decision: \$39,360.00 - Modified by SLD
Funding Commitment Decision Explanation: The FRN was modified from \$5,000.00/m to \$4,000.00/m to agree with the applicant documentation to remove email component of Net56 Solution for \$1,000.00 per month that included Email Retention \$500.00 per month and Email Journaling \$500.00 per month.

Applicant Revised FCDL Letter Date: 06/03/2015
Appeal Wave Number: A58
Last Allowable Date for Delivery and Installation for Non-Recurring Services: 09/30/2016

Consultant Name:
Consultant Number (CRN):
Consultant Employer:

FUNDING COMMITMENT REPORT
Service Provider Name: Net56, Inc
SPIN: 143025679
Funding Year: 2008



Name of Billed Entity: ROUND LAKE AREA SCH DIST 116
Billed Entity Address: 316 S ROSEDALE CT
Billed Entity City: ROUND LAKE
Billed Entity State: IL
Billed Entity Zip: 60073-2944
Billed Entity Number: 135319
Name of Contact Person: Lana Soldat
Preferred Mode of Contact: EMAIL
Contact Information: lsoldat@rlas-116.org
Form 471 Application Number: 635038
Funding Request Number: 1756526
Funding Status: Funded
Category Of Service: INTERNET ACCESS
Form 470 Application Number: 769500000660110
Contract Number: N/A
Billing Account Number: N/A
Service Start Date: 07/01/2008
Contract Expiration Date: 06/30/2012
Number of Months Recurring Service Provided in Funding Year: 12
Annual Pre-Discount Amount for Eligible Recurring Charges: \$48,000.00
Annual Pre-Discount Amount for Eligible Non-Recurring Charges: \$.00
Pre-Discount Amount: \$48,000.00
Applicant's Discount Percentage Approved by SLD: 82%
Funding Commitment Decision: \$39,360.00 - Modified by SLD
Funding Commitment Decision Explanation: The FRN was modified from \$5,000.00/m to \$4,000/m to agree with the applicant documentation to remove Webhosting component of Net56 Solution for \$1,000.00 per month that included Web Retention \$500.00 per month and Web Journaling \$500.00 per month.

Applicant Revised FCDL Letter Date: 06/03/2015

Appeal Wave Number: A58

Last Allowable Date for Delivery and Installation for Non-Recurring Services: 09/30/2016

Consultant Name:

Consultant Number (CRN):

Consultant Employer:



Universal Service Administrative Company

JUN 11 2015

Schools and Libraries Division



REVISED FUNDING COMMITMENT DECISION LETTER
Funding Year 2008: (07/01/2008 - 06/30/2009)

June 9, 2015

Mary Piazza
Net56, Inc
21805 W. Field Parkway Suite 125
Deer Park, IL 60010-3267

SPIN: 143025679

This letter is your notification that the Schools and Libraries Division (SLD) of the Universal Service Administrative Company (USAC) has completed its review of requests regarding application funding requests that listed your company's Service Provider Identification Number (SPIN). A decision in this Revised Funding Commitment Decision letter (RFCDL) supersedes a decision in the FCDL you may have received for the Funding Request Number(s) (FRN) in the Funding Commitment Report (Report) that follows this letter.

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IMPLEMENTATION TIMEFRAME

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2. State outright that your letter is an appeal. Include the following to identify the decision letter and the decision you are appealing:
 - appellant name
 - applicant and service provider names, if different than appellant
 - applicant BEN and Service Provider Identification Number (SPIN)
 - Form 471 Application Number as assigned by USAC
 - Funding Request Number(s) (FRNs) you are appealing if provided in the letter
 - *Funding Year 2008 Revised FCDL AND*
 - the exact text or the decision that you are appealing.
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4. If you are an applicant, please provide a copy of your appeal to the service provider(s) affected by USAC's decision. If you are a service provider, please provide a copy of your appeal to the applicant(s) affected by USAC's decision.
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Letter of Appeal
Schools and Libraries Division - Correspondence Unit
30 Lanidex Plaza West
PO Box 685
Parsippany, NJ 07054-0685

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NOTICE ON RULES AND FUNDS AVAILABILITY

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Schools and Libraries Division
Universal Service Administrative Company

FUNDING COMMITMENT REPORT
Service Provider Name: Net56, Inc
SPIN: 143025679
Funding Year: 2008

Name of Billed Entity: ROUND LAKE AREA SCH DIST 116
Billed Entity Address: 316 S ROSEDALE CT
Billed Entity City: ROUND LAKE
Billed Entity State: IL
Billed Entity Zip: 60073-2944
Billed Entity Number: 135319
Name of Contact Person: Lana Soldat
Preferred Mode of Contact: EMAIL
Contact Information: lsoldat@rlas-116.org
Form 471 Application Number: 635038
Funding Request Number: 1756397
Funding Status: Funded
Category Of Service: INTERNET ACCESS
Form 470 Application Number: 769500000660110
Contract Number: N/A
Billing Account Number: N/A
Service Start Date: 07/01/2008
Contract Expiration Date: 06/30/2012
Number of Months Recurring Service Provided in Funding Year: 12
Annual Pre-Discount Amount for Eligible Recurring Charges: \$108,960.00
Annual Pre-Discount Amount for Eligible Non-Recurring Charges: \$.00
Pre-Discount Amount: \$108,960.00
Applicant's Discount Percentage Approved by SLD: 82%
Funding Commitment Decision: \$89,347.20 - Modified by SLD
Funding Commitment Decision Explanation: The FRN was modified from \$11,540.00/m to \$9,080.00/m to agree with the applicant documentation to remove \$2,460.00 associated with Internal Connections services for the DNS/DHCP portion that was not posted on the FCC Form 470.

Applicant Revised FCDL Letter Date: 06/09/2015
Appeal Wave Number: A59
Last Allowable Date for Delivery and Installation for Non-Recurring Services: 09/30/2016

Consultant Name:
Consultant Number (CRN):
Consultant Employer:

Exhibit D



Schools and Libraries Division

March 26, 2010

RECEIVED MAR 27

Denise Peeks
Country Club Hills School District 160
4411 185th St.
Country Club Hills, IL 60478-5219

Further Explanation of Administrator's Funding Decision
FCC Form 471 Application Number: 678753
Funding Request Numbers: 1853415, 1853424 and 1853437
Funding Year 2009 (07/01/2009 – 06/30/2010)
Billed Entity Number: 135654

Under separate cover, you are being sent a Funding Commitment Decision Letter concerning the FCC Form 471 Application Number cited above. This Funding Commitment Decision Letter denies the Funding Request Number(s) indicated above.

Please be advised that the Funding Commitment Decision Letter (FCDL) is the official action on this application by the Universal Service Administrative Company (USAC). Please refer to that letter for instructions regarding how to appeal the Administrator's decision, if you wish to do so. The purpose of this letter is to provide you with additional information concerning the reason for modification and denial of these funding requests.

Review of FRN #1853415

FRN #1853415 requests funding in the amount of \$141,120 for Internet access WAN service. This WAN service request includes on-premise equipment. According to the Item 21 attachments and additional documentation you provided on November 10, 2008, which included a more detailed description of the services being procured from Net56 and a network diagram supplied by your service provider, the on-premise equipment consisted of Cisco 3560 series layer 3, Gb Switch/Routers and IBM eSeries Servers, which were to function as DNS/DHCP servers.

Based on a review of the network diagram and related documentation related to this on-premise equipment, in accordance with the requirements of the Tennessee Order (FCC 99-216), the WAN servers, identified as DNS/DHCP servers, are not eligible as part of a Priority 1 Internet access service.

The Tennessee Order questions address the exclusive use of the servers, and whether the DHCP service would function if the servers were removed. For reference, please see <http://www.usac.org/sl/applicants/step06/on-premise-priority1-equipment.aspx>.

- The diagram configuration, and the function of the servers, fail the following requirements of the Tennessee Order:
 - *The Local Area Network of the school or library is functional without dependence on the equipment.* This is because the DHCP/DNS service would not be able to function if the servers were removed.
 - *There is no contractual, technical, or other limitation that would prevent the service provider from using its network equipment, in part, for other customers.* This is because the servers are located at an applicant site; as such, it would not be possible for the vendor to utilize the same servers to provide DNS/DHCP service to another customer.

While the WAN servers could potentially be eligible as Priority 2 internal connections, your establishing FCC Form 470, #832400000711069, did not post for Internal Connections. Therefore, these servers are not fundable as Internal Connections.

In response to USAC's request for cost allocation information, your service provider, Net56, in their response dated February 22, 2009, indicated that the cost associated with the servers was \$205 per month each or a total of \$9,840 annually. Your funding request was reduced by that amount.

The remaining broadband circuits and associated Cisco 3560 switches are eligible as Priority One Internet access service. The circuits were not subjected to a cost effectiveness review.

FRN #1853424 Review

FRN #1853424 requests funding in the amount of \$30,000 for a firewall service. This firewall service includes on-premise software running on the switches included in the WAN service FRN #1853415. FRN #1853424 also includes firewall equipment located at the Net56 data center. The Net56 data center is an ineligible location; accordingly, equipment located there is ineligible for funding. Also, since the funding request includes the firewall capability of the software running on the switch, which is located at the point of entry of each building, it has been determined that the equipment located at the Net56 data center is redundant and therefore ineligible for that reason as well.

In response to USAC's request for cost allocation information, your service provider, Net56, in their response dated February 22, 2009, indicated that the cost associated with the firewall equipment located at the Net56 data center was \$1,350 per month or \$16,200 annually. The funding request was reduced by that amount.

FRN #1853437 Review

FRN #1853437 requests funding in the amount of \$120,000 for web hosting and email services. In the response to USAC's information request regarding the specific services included in this funding request, you indicated that these services include web retention and web journaling as well as email retention and email journaling. Web retention and e-mail retention is archiving of information. Web journaling and e-mail journaling is an application. These products/services are ineligible under program rules.

For details, please refer to the Eligible Services List:

<http://www.universalservice.org/sl/tools/eligible-services-list.aspx>.

In response to USAC's request for cost allocation information, your service provider, Net56, in their response dated February 22, 2009, indicated that the cost associated with the email retention and journaling and web retention and journaling was \$2,000 per month or \$24,000 annually. The funding request was reduced by that amount.

After modification and removal of the costs associated with the email retention and journaling and the web retention and journaling, this FRN was subjected to a cost effectiveness review by USAC. This review was conducted based on the Item 21 attachments and follow up questions and your responses to the follow up questions. This cost effectiveness review compared the funding requested for the solution from Net56 with the funding required for a comparable premises-based solution, as well as other on-premises solutions.

The result of that review was that the funding request was not justified as cost effective as required by FCC rules. The FCC has stated that in some situations in which "the price of services is so exorbitant that it cannot, on its face be cost effective" and cited as an example selling a service "at prices two to three times greater than the prices available from commercial vendors would not be cost effective, absent extenuating services" Ysleta Order, FCC 03-313, paragraph 54.¹ Specifically, the web hosting and email services exceed two times the cost of a comparable solution from commercial vendors. The funding required for the Net56 solution over the five year life of the contract is \$480,000. However, the cost of a comparable solution that is based on purchasing the server equipment and annual maintenance would be approximately \$57,000. This amount accounts for the purchase of four servers at a market price of \$14,250, including installation and maintenance for five years. It should be noted that in most cases, two servers are adequate to perform these functions. Costs associated with the purchase of two servers would be approximately \$28,500.

¹ See 47 C.F.R. secs. 54.511(a), 54.504(b)(2)(vii), 54.504(c)(1)(xi). See also Request for Review of the Decision of the Universal Service Administrator by Ysleta Independent School District, et al., CC Docket Nos. 96-45 and 97-21, Order, 18 FCC Rcd 26407, FCC 03-313 paras. 47-55 (Dec. 8, 2003) (*Ysleta Order*).

Contract Review: Service Eligibility Issues

In response to the April 14, 2009 request by USAC for all contracts between the Country Club Hills School District 160 and the service provider, Net56, the applicant provided one contract. The contract is signed by Leonora Beck, Business Manager and dated May 10, 2006. It is for a term of 60 months.

Upon review, your contract specifies several additional ineligible services that are included in the funding requests beyond what was disclosed in your responses to information requests. Such services include, but are not limited to, the following: maintenance and repair of school owned equipment located in the Net56 data center (co-located equipment), backup of hard drives of co-located equipment, providing anti-virus services on co-located equipment, providing environmentally controlled atmosphere and generated backup power for co-located equipment.

Because FRN #1853437 had already been determined to be not cost effective based on the information that was previously provided, USAC did not attempt to re-perform cost allocations and the cost effectiveness review based upon this additional information, and the previous determination as detailed above stands.

However, it is important to note that during the course of this review, both you and your service provider failed to provide a breakdown of the eligible versus ineligible services being received from Net56 and their respective dollar amounts that is consistent with the services and costs noted in your contract, which, additionally, tie in clearly to your Schools and Libraries Program funding requests. As explained in greater detail below, the documentation provided by you indicates that the monthly payments are exclusively for the rental/lease of equipment that is not fundable because it is located at an ineligible entity.

Contract Review: Payments

The Master Service Agreement portion of the aforementioned contract, in section 3, states that this is the sole agreement between the school and the service provider "relating to the subject matter hereof." Accordingly, there is no other agreement/contract related to the services requested in FCC Form 471 application #678753.

This contract specifies a monthly payment of \$8,352 to be paid pursuant to the terms and conditions of Exhibit D, which is a financing agreement between the school and Millennium Leasing & Financial Services Inc. There is no other payment specified in the contract other than this payment to Millennium Leasing & Financial Services Inc.

Finance Agreement Review

The financing agreement, also signed by Leonora Beck, states that the school is to make 60 lease payments in the amount of \$8,352 each. The financing agreement indicates that the payments are for the rental/lease of the equipment shown in Exhibit A of the financing agreement. That equipment is the same equipment listed in Exhibit A of the Net56 contract. Exhibit A of the Net56 contract indicates that the implementation location of this equipment is the Net56 location at 1266 W. Northwest Hwy, Palatine, Illinois, which is an ineligible location. Per the financing agreement, the entire amount of the payments is associated with the rental/lease of this equipment.

As specified in the financing agreement between the school and the financing company, this payment is solely for the rental/lease of hardware and/or software. The hardware and/or software specified as covered by the finance agreement is ineligible because it is being deployed within the Net56 data center, which is an ineligible entity.

Although eligible services may have been provided by Net56, there is no documentation regarding any payment for eligible or ineligible Internet access services. Therefore, there is no documentation to support that you paid your Schools and Libraries Program share for any eligible Internet access services, because the lease agreement, which represents the full payment for services, is solely for the rental/lease of ineligible equipment.

Net56 Additional Information

USAC management met with several applicants as well as Net56 regarding these concerns. On October 7, 2009, Net56 provided a two page letter in response to USAC's questions. The request was to respond as to why Net56 maintained that the servers would be eligible as a Priority 1 Service; to answer how they arrived at their pricing structure; and to provide the grid referred to by some applicants that would purportedly allocate costs related to eligible and ineligible services.

The Net56 response was reviewed. First, the documentation provided did not affect the determination regarding the servers. Second, the question regarding pricing structure was not answered directly, but rather, a "Total Cost of Ownership" document was provided, which compared costs of the Net56 solution with ineligible staff costs. It is important to note that while a particular solution may lower the overall Total Cost of Ownership to an individual school district, the Schools and Libraries program can only fund eligible products and services that are used in accordance with FCC Rules, which may not always result in the lowest total cost of ownership to the applicant. Third, the grid provided, while it did pertain to the funding requests, did not serve to answer the many questions relating to disparities between the Item 21 documentation, the contract and the finance agreement.

Conclusion

The funding requests were reviewed for service eligibility. Ineligible services were cost allocated and the associated costs were removed from the funding requests. A cost effectiveness review was then performed on FRN #1853437. The FRN failed this cost effectiveness review.

During the course of the review of this application, the contract and finance agreement were provided to USAC. The services noted in the contract differ from your responses during the cost effectiveness review; however, the determination that FRN #1853437 fails cost effectiveness review stands, since the additional information in the contract would only lead to further cost allocations, which would still provide a cost effectiveness failure.

In regard to service eligibility of the products and services specified in your contract, no documentation was provided to USAC that clearly allocates eligible and ineligible products and services and their respective costs. As a result, it is not possible to ascertain how your Schools and Libraries Program funding requests relate to the eligible and ineligible products and services noted on the contract.

Additionally, the finance agreement, which includes the only payment related to your contract and this application's three funding requests, specifies that the payments are for the lease/rental of hardware at the Net56 data center, an ineligible location. While Net56 may be providing eligible Internet access services as a part of the contract, there is no documentation to support that any services, eligible or ineligible, are included in the payments to the finance company. Accordingly, there is no documentation for any of the three FRNs in this application, regarding the payment of your Schools and Libraries Program share of the Internet access services. As a consequence, all three FRNs are denied.

Finally, USAC management made additional attempts to obtain information from Net56 in regard to these concerns; however, the documentation provided did not affect the outcome of the decision.

Sincerely,

The Schools and Libraries Program

cc:
Net56
Bruce Koch
1266 W. Northwest Hwy
Suite 740

Denise Peeks
February 4, 2010
Page 7 of 7

Palatine, IL 60067

Exhibit E



This invoice was created for your records only,
please do not remit payment to SYNNEX

PURCHASE ORDER 6524765MP-1	CUSTOMER # 332439	SHIPPED VIA Local Delivery	Invoice# 19221961	DATE 11/30/06
TERMS: WT WIRE TRANSFER	Ship Date 11/30/06	F.O.B SYNNEX -GLENDALE CM6	Invoice Total \$43,854.00	Due Date 12/05/06
Approval #	Taxable N	Source Sales Order	Contact Phone # (864) 349-4713	PAGE 1 / 2

Bill To:
Net56, Inc
1266 West Northwest Hwy
Suite 740
Palatine IL 60067
US

Ship To:
Bruce Koch
NET56, INC
1266 WEST NORTHWEST HWY,
SUITE 740
PALATINE IL 60067
US

Sold To:
Net56, Inc
1266 West Northwest Hwy
Suite 740
Palatine IL 60067
US

QTY	PART NUMBER/DESCRIPTION	SKU #	VENDOR PART #/UPC CODE	UNIT PRICE	EXT NET PRICE
2	IBM-32R1812 Brocade 20-port 4Gb SAN Switch SN: 1S32R181223A5756	1083541 SN: 1S32R181223A5828	32R1812 000435819130	\$5,637.00	\$11,274.00
4	IBM-39M4675 BladeCenter 2000W Power Supply Modules SN: 1S39M4675KQVW544 SN: 1S39M4675KQXL603	1108324 SN: 1S39M4675KQVW549	39M4675 000435820785 SN: 1S39M4675KQXL602	\$474.00	\$1,896.00
9	IBM-39M4594 2GbPS FC, 300.0 GB, 10K E- DDM SN: 0631254785 SN: 0639031323 SN: 0639031670	1096663 SN: 0632326587 SN: 0639031337 SN: 0639031743	39M4594 000435882189 SN: 0639031312 SN: 0639031660 SN: 0639031751	\$545.00	\$4,905.00
1	IBM-181281H IBM DS4000 EXP810 Expansion Unit SN: 1S181281H130362D	1096656	181281H 000435882974	\$3,773.00	\$3,773.00
1	IBM-41Y5222 DS4700 Mod 70 EXPs Att 1-3	1134142	41Y5222 000435913470	\$3,590.00	\$3,590.00
32	IBM-39M4554 500GB 7200 RPM SATA E-DDM SN: 0639029032 SN: 0639029047 SN: 0639029052	1171577 SN: 0639029036 SN: 0639029050 SN: 0639029056	39M4554 000435929860 SN: 0639029046 SN: 0639029051 SN: 0639029059	\$526.00	\$16,832.00

1) Claim for any discrepancy or defective material must be made within 1 week from the date of shipment from SYNNEX. No return will be accepted without prior authorization.

2) Statements or description of products, if any, by SYNNEX or agents of SYNNEX are informational only, and not made or given as a warranty of any kind. SYNNEX SELLS THE PRODUCTS WITHOUT ANY EXPRESS OR IMPLIED WARRANTIES OF ANY TYPE AND PARTICULARLY WITHOUT ANY IMPLIED WARRANTY OF MERCHANTABILITY OR NON-INFRINGEMENT. In the event of any product defect or nonconformity, purchaser's sole remedy shall be the repair or replacement of nonconforming goods or, at SYNNEX's option, a refund of the purchase price and purchaser shall not be entitled to any incidental, consequential, or special damages of any kind.

3) Customer also agrees to pay such attorney's fees and costs as are actually incurred for the collection of this amount whether or not suit is instituted.

A service charge of 1 1/2% per month, 18% per annum will be assessed on past due amounts

Exhibit F

